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August 18, 2008

AGENDA ITEM 11b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Third Party Administrator Contract Amendment
- II. PROGRAM:** Supplemental Income Plans
- III. RECOMMENDATION:** Assign the CitiStreet contract to ING. Wilshire opinion letter is shown in Attachment 1.

IV. ANALYSIS:

Summary

The third-party administrator (TPA) for the CalPERS Supplemental Income Plans, CitiStreet, has been purchased by the ING Group. Under the terms of CalPERS' contract with Citistreet, assignment of the TPA contract to ING must be approved by the Board. Staff's recommendation to approve the assignment is based on meetings with CitiStreet and ING management, and in consultation with the CalPERS Legal Office. In addition, CalPERS contracted with Wilshire Consultants, who performed due diligence with respect to the acquisition as outlined in Attachment 1.

Background

The CalPERS Supplemental Income Plans (SIP) contracts with CitiStreet as a Third-Party Administrator (TPA). CitiStreet was created from a partnership between State Street Bank and Citigroup in April, 2000. As the TPA, CitiStreet plays a major part in the daily administration of the SIP, as their services include:

- maintaining all participant level records, which include account balances, demographic data, investment options, and investment returns;
- communicating to the 67,863 SIP participants via statements, custom websites, and a call center;

- processing all participant enrollments and employer reporting of employee contributions with over 650 agencies on a bi-weekly basis;
- providing onsite employer and participant services and presentations for the 457 Plan throughout the State of California; and
- marketing the 457 Plan to local public agencies to add new employers and participants.

Under a separate contract, State Street Bank provides custodial and investment management services for the SIP.

Both CitiStreet and State Street Bank were selected for these services through a Competitive Negotiation Solicitation (CNS). On June 19, 2006, staff reported its recommendation as Information Item 8a to the Investment Committee. CitiStreet's contract with CalPERS was effective January 1, 2007, and expires on December 31, 2009, and may be extended for up to two successive one-year periods. For ING to assume the CitiStreet contract, the Board must approve this assignment.

Acquisition of CitiStreet by ING

On April 21, 2008, staff reported to the Investment Committee that CitiStreet was for sale from its parent companies, CitiGroup and State Street Bank. On June 16, 2008, staff reported that ING purchased CitiStreet and that the sale would be complete at the end of the 3rd quarter 2008, as reported by CitiStreet. The sale closed sooner than expected on July 1, 2008. Attachment 2 is the sale announcement.

Amsterdam-based ING Group, one of the twelve largest European insurers, is a global financial services firm headquartered in the Netherlands and focusing on banking, insurance and asset management to more than 60 million private, corporate and institutional clients in over 50 countries. ING was founded in 1991 by a merger between Nationale-Nederlanden and NMB Postbank Group. The founding of ING as one company came about when the legal restrictions on mergers between insurers and banks were lifted in the Netherlands in 1990. This prompted insurance company Nationale-Nederlanden and banking company NMB Postbank Groep to merge to form the Internationale Nederlanden Groep. The company shortened its statutory name to ING Groep N.V shortly thereafter.

Since 1991, ING has developed into a multinational organization through a mixture of organic growth and various large acquisitions. ING acquired U.S.-based Aetna Financial Services in 2000, and most recently, CitiStreet. ING U.S. Financial Services focuses on the US markets with the U.S. Wealth Management Division focused on long-term retirement savings, retirement income and financial planning. With its acquisition of CitiStreet, ING has solidified its stake in the U.S. retirement services industry, making ING

number 1 in the number of defined contribution plans with 60,000, number 2 in defined contribution plan participants with 9.8 million, and number 3 in defined contribution plan assets under management/administration with over \$300 billion.¹

Analysis

To understand the impact of this sale on the existing contract's required services, staff has had many discussions with both CitiStreet and ING staff, including an on-site due diligence visit to ING's offices on July 18, 2008. The primary focus of these discussions was to ensure:

- All the existing contract terms and conditions are retained,
- Service levels for employers and participants are maintained or improved,
- Potential conflicts in competing business interests between ING and CalPERS are addressed, as well as potential conflicts of allegiance among the ING staff who are dedicated to CalPERS' customer service, and
- ING is committed to providing resources to complete the 2008 fund transition and the 2009 PSR integration.

From these discussions and meetings, and from consultation with CalPERS legal staff, staff is optimistic about the sale and its impact on CalPERS SIP participants and employers. ING has agreed to all the contract's term and conditions while ensuring service levels are maintained. All the existing CitiStreet customer service staff will remain as part of the CalPERS customer service team.

The former CitiStreet team will report to the U.S. Wealth Management Division of ING located in Connecticut, U.S.A. ING has existing retirement clients in California and has competed with CalPERS for 457 Plan business. Currently there are 28 local agencies where CalPERS and ING offer 457 Plans side by side. In addition, ING offers 403(b) plans at California schools where CalPERS offers 457 Plans. These potential conflicts with ING's service teams have been addressed by CalPERS staff and Kathy Murphy, CEO of ING's Wealth Management Division. Resolutions include:

- The six California based ING employees (formerly CitiStreet employees) that represent the CalPERS 457 Plan will continue to be dedicated exclusively to the CalPERS 457 Plan and will not represent ING's other products. Their business cards will clearly state they are ING employees representing the CalPERS 457 Plan.

¹ <http://www.ing.com/group/index.jsp>

- CalPERS, not ING, will direct all communications between CalPERS and the employers contracting for the CalPERS 457 Plan. This will include a letter notifying the contracting employers of ING's role as CalPERS' Third Party Administrator.
- CalPERS retains the first right to bid on all California 457 Plan Request for Proposals.
- CalPERS and ING will work collaboratively to address any potential conflicts as they may arise at the 28 local agencies where CalPERS and ING offer competing 457 Plans to eligible employees. Since the CalPERS 457 Plan and ING's own 457 plan compete side by side at these agencies, this collaborative effort will avoid any employer or employee confusion regarding ING's role with the CalPERS Plan.

Wilshire has performed a due diligence review of ING's acquisition of CitiStreet and, as outlined in Attachment 1, concurs with staff's position on assignment of the contract.

Recommendation

Staff recommends the Investment Committee approve the assignment of the CitiStreet contract to ING for SIP Third Party Administrative services. Should this be approved, staff will work with the Legal Office to complete the contract assignment. As is current practice, staff will closely monitor ING's conduct and performance under the contract.

V. STRATEGIC PLAN:

This agenda's initiatives address multiple CalPERS Strategic Plan Goals including:

- Goal (VI) to Administer pension benefit services in a customer oriented and cost effective manner and
- Goal (VII) to Enable and educate members and employers to make informed decisions leading to a predictable and secure retirement futures.

VI. RESULTS/COSTS:

The SIP is a self sustaining program funded by participant fees. This contract assignment will maintain the same fees.

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